before me is the judgment of the Andhra Pradesh High Court. We did not appeal against that judgement. We accepted that judgement. We promoted them.

Failure of RBI in controlling inflation

*462. SHRI S.M. LALJAN BASHA:†
SHRI M.V. MYSURA REDDY:

Will the Minister of FINANCE be pleased to state:

(a) whether RBI has reported that the Scheduled Banks business in the country in 2006-07 upto March 2 grew by 22.5 per cent as compared with 23.4 per cent growth last year;

(b) if so, whether Government will explain why inflation continued at over 6.4 per cent in the month of March, 2007 despite claims of RBI that liquidity is less;

(c) whether it is a fact that RBI has either been unable or perhaps unwilling to bring down inflation to less than 2.5 per cent; and

(d) if so, what steps Government will take to introduce fiscal measures to counter the non activity of RBI?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (d) A Statement is placed in Table of the House.

Statement

(a) As per the data released by the Reserve Bank of India (RBI), Bank Credit during 2006-07 (upto March 2, 2007) grew by 22.5 per cent compared to 23.4 per cent during the corresponding period of previous year.

(b) Demand-supply gap in some agricultural commodities like wheat, pulses and edible oils, hardening international prices of various commodities including metals and crude oil, rapid rise in credit, buoyant inflows of FDI and FII reflecting positive investor sentiments, and the high growth momentum of the economy have been the major reasons for inflation.

(c) and (d) As monetary policy comes under the purview of RBI, a number of monetary measures were announced with the objective of containing

†The question was actually asked on the floor of the House by Shri S.M. Laijan Basha.

the excess liquidity in the system. The fixed repo rate under Liquidity Adjustment Facility (LAF) was increased by 25 basis points to 7.75 per cent effective March 31, 2007. Cash Reserve Ratio (CRR) was increased to 6.50 per cent effective April 28, 2007. As the monetary stance has been aimed at maintaining price stability and anchoring inflationary expectations without hurting the growth momentum, RBI in its Annual Policy Statement for 2007-08, has reiterated its resolve to contain inflation close to 5.00 per cent during 2007-08 with perceptions for inflation in the range of 4.0-4.5 per cent over the medium-term.

The monetary policy measures are in addition to the fiscal measures of the Government and the initiatives to address supply side constraints and include *inter alia:*

- Reduction in retail prices of petrol by Rs. 2 per litre and diesel by Re. 1 per litre in November, 2006 and again in February, 2007.
- State Trading Corporation contracting for import of 55 lakh tonnes of wheat to supplement domestic availability.
- As against normal applicable duty of 50 per cent, allowing private trade to import wheat at 5 per cent duty from June 28, 2006, and at zero duty from September 9, 2006.
- Decision to release up to 4 lakh tonnes of wheat under open Market Sale Scheme in February and March, 2007.
- Ban on export of pulses from June 22, 2006, of wheat and skimmed milk powder from February 9, 2007.
- Reduction in customs duty on import of pulses to zero on June 3, 2006.
- NAFED, STC and PEC importing pulses to augment domestic availability.
- Ban on futures trading in tur and urad from January 24, 2007 and in wheat and rice from February 28, 2007.
- Reduction in import duty on palm group of oils by 10 percentage points in August, 2006 and further by 10-12.5 percentage points in January, 2007. Maintaining tariff value for assessing import duty unchanged at July, 2006 level.

- In the Budget 2007-08, crude as well as refined edible oils have been exempted from additional (countervailing) duty of 4 per cent. Basic customs duty on sunflower oil, both crude and refined, has been reduced by 15 percentage points. A further 10 percentage points cut in basic customs duty on palm group of oils was notified in April, 2007.

श्री एस॰ एम॰ लालजन बाशा: सभापति महोदय, जब से चिदम्बरम जी फाइनेंस मिनिस्टर बने, देश में इंफलेशन बढ़ता जा रहा है। लेकिन क्या वजह है कि हमारे इतने बड़े देश में जबकि चायना हमारे से भी बड़ा देश है वह एक परसेंट के अंदर है, अमेरिका दो परसेंट के अंदर है, जापान एक परसेंट के अंदर है तो हमारे देश में 6 परसेंट के ऊपर चला जा रहा है तो आम आदमी की कैसे जिंदगी बसर होती है, यह हमारे फाइनेंस मिनिस्टर साहब को समझ में नहीं आ रहा है, क्योंकि मुझे समझ में आता है कि यह अच्छे एडवोकेट तो हैं लेकिन अच्छे इकॉनोमिस्ट नहीं हो सकते। इसलिए एडवोकेट होने के नाते फाइनेंस मिनिस्ट्री को संभालने में और इस देश की यह हालत होने में, जबकि आर॰बी॰आई॰ खुद इनके आंसर में बोल रही है कि हम लोग 5 परसेंट से कम नहीं कर सकते, तो क्या आर॰बी॰आई॰ फाइनेंस मिनिस्टर से भी एबव है, यह मेरे को तो समझ में नहीं आ रहा है, तो फाइनेंस मिनिस्टर क्या कर रहे हैं? आर॰बी॰आई॰ गवर्नर मुम्बई में बैठकर कह रहे हैं कि यह 5 परसेंट से कम नहीं हो सकता क्योंकि हमारे बजू में हमारे से भी बड़े देश चायना में बिलो वन परसेंट है, तो हमारे देश में क्यों नहीं हो सकता। इसको फाइनेंस मिनिस्टर साहब बताने का कष्ट करें।

SHRI P. CHIDAMBARAM: Sir, as I have said on more than one occasion, the current inflation is largely triggered by following four factors. Firstly, hardening of commodity prices, particularly metals and crude oil. Secondly, a demand-supply mismatch, which started with sugar; then, wheat. When sugar prices eased, now it is in pulses. Thirdly, increase in money supply. Thanks to capital inflows into the country. And fourthly, increase in demand. Thanks to increase in public expenditure and increase in credit. These factors have impacted inflation. Of course, one can draw one's own conclusion, but the fact is that the average inflation for 2006-07 has reached 5.4 per cent. Before the UPA Government came, in three of the six years of the previous Government, the average inflation was more than 5.4 per cent. That does not give us any comfort. All I am pointing out is that it is not correct to say that Inflation is on the rise. ...*(Interruptions)*... Just a moment, please. Facts are facts. In three out of six years, it was above 5.4 per cent and in three out of six years, it was less than 5.4 per cent. ...*(Interruptions)*... It is, therefore, not correct to say that inflation is a phenomenon only under the UPA Government. The present inflation deserves

to be moderated; steps are being taken to moderate the present inflation. But it will be moderated in the long run only if the supply-demand mismatch is met. I have pointed out how wheat production, paddy production and pulses production have stagnated over the last ten years. In fact, if you look at the production curve as well as the productivity curve, it is a flat curve for wheat, paddy and pulses. There are other pressures like hardening of metal prices, crude oil prices and demand side pressures. What we have done is, on the fiscal side, we have cut customs duties and excise duties. On the monetary side, RBI has increased the CRR in six steps from 5 to 6.5 per cent. It has also increased the risk weight for various kinds of lending. That has had a moderating influence. In the medium to long-term, the durable solution is increased supply. As long as supply of essential articles, especially food articles, does not match up to demand, there will be pressure on prices, and that is what is triggering the current inflation.

Now, I have been asked to compare India with China. China's inflation is reported to be between two and two-and-a-half per cent. Even in China, in recent weeks, inflation seems to have moved up to three per cent and they are taking steps like we are taking, both on the monetary side and on the demand management. Beyond that, I cannot compare India and China because I have no other information except what is reported about China, and I am not even competent to comment on the quality of information which China puts out. But on reported data, China's inflation is, indeed, lower than our inflation.

श्री एस॰ एम॰ लालजन बाशा: सभापति महोदय, यूपीए गवर्नमेंट की हुकूमत से सिर्फ अपोजिशन ही नहीं, सभी लोग नाराज हैं। नाराजगी यहां तक आ गई है कि प्राइम मिनिस्टर साहब खुद फाइनेंस मिनिस्ट्री को इशारा कर रहे हैं कि यहां क्या हो रहा है, हमारे देश में क्रोनी कैपिटलिज्म चल रहा हैं । यह इशारा यशवंत सिन्हा साहब को नहीं किया, क्रोनी कैपिटलिज्म के बारे में। देश में बाहर से फॉरेन इन्वेस्टर्स को लाने का काम हो रहा है, लेकिन हमारे देश में जो अरबन बैंक सेक्टर है, हमारे देश में अरबन कोआपरेटिव बैंक्स फिनिश हो रहे हैं और मल्टी नेशनल बैंक्स आ रहे हैं। यहां बाहर के बैंकों को लाने का काम हो रहा है, आरबीआई सिर्फ इसी काम में लगा है। इसकी वजह क्या है, यह मेरी समझ में नहीं आ रहा है। आज बाहर के इन्वेस्टर्स को बड़े प्रेम से देश के अंदर लाने का काम हो रहा है, अपने देश के बैंकों को -हमारे यहां महात्मा गांधी जी के समय से कोआपरेटिव बैंकों के माध्यम से जो काम हो रहा था, वह काम फिनिश होता है और मल्टी नेशनल बैंकों को बहुत वैलकम कर रहे हैं। मैं पूछना चाहता हूं कि इसमें दो तरह का नजरियापन क्यों हो रहा है? हमारे

फाइनेंस मिनिस्टर को आरबीआई वाले क्या गाइड करने में कुछ गलती कर रहे हैं या हमारे फाइनेंस मिनिस्टर को समझने में कुछ भूल हो रही है क्योंकि बाहर के देशों को देखने के बाद ...(व्यवधान)...

श्री सभापति: ठीक है।

श्री एस॰ एम॰ लालजन बाशा: हमारी गरीब जनता को देखने के लिए इनकी आंख अभी खुली है, क्योंकि पंजाब में इनकी गवर्नमेंट चली गई, उत्तराखंड में इनकी गवर्नमेंट चली गई...

श्री सभापति: आप इसको छोड़िए। Please come to your question.

श्री एस॰ एम॰ लालजन बाशा: वहां मुम्बई में कारपोरेशन हाथ से चला गया, दिल्ली में कारपोरेशन चली गयी। ...(व्यवधान)...

MR. CHAIRMAN: Please come to your question.

श्री एस॰ एम॰ लालजन बाशा: इनके जाने के बाद आज बात हो रही है। ...(व्यवधान)...

श्री सभापति: आप क्वेश्चन करिए। आप क्वेश्चन करिए।

श्री एस॰ एम॰ लालजन बाशा: सीमेंट के जो बड़े-बड़े इंडस्ट्रियलिस्ट हैं। ...(व्यवधान).. उनके लिए करने का काम हो रहा है। गरीब जनता की इन्फ्लेशन के कारण हालत खराब हो रही है।

श्री सभापति: गरीब जनता के बारे में बताइये।

श्री एस॰ एम॰ लालजन बाशा: गरीब जनता के लिए आप क्या रिलीफ दे रहे हैं, यह पूछना चाहता हूं। गरीब जनता को सरकार की ओर से जो रिलीफ मिलनी चाहिए क्या वह रिलीफ फाइनेंस मिनिस्टर से मिलने वाला है? यह मैं पूछना चाहता हूं।

श्री सभापति: ठीक है, ठीक है। आपका क्वेश्चन हो गया। आप जवाब तो देने दीजिए।

श्री एस॰ एम॰ लालजन बाशा: गरीब जनता के मामले को फाइनेंस मिनिस्ट्री को सीरियसली देखना चाहिए।

SHRI P. CHIDAMBARAM: Sir I respectfully invite your attention to the question. This question concerns inflation and measures taken in the matter of bank credit. Now this has no relation to urban cooperative banks or why foreign banks are being allowed to open branches in India. The question concerns inflation. If yoy allow any supplementary on inflation, I will answer it. But the question that is being put to me has nothing to do with the main question.

SHRI YASHWANT SINHA: Sir, I have no wish to join issue with the hon. Finance Minister. But, as is his penchant, he does not fail to remind us of the rate of inflation during the NDA regime. I have said in this House earlier that that can't be a justification for the rate of inflation which prevails today. But having said that, the specific question which I would like to ask the hon. Finance Minister is this. I don't have a copy of the Economic Survey presented by him to the Parliament before the Budget this year. But I recall distinctly that in the chapter on inflation, the Economic Survey says that during the NDA regime we were able to achieve a structural shift in inflation, as a result of which India could come on at par with the developed countries as far as inflation was concerned. This is what the Economic Survey says. Now, I am putting to the Finance Minister a question. When the Economic Survey says, how can he claim that the present rate of inflation is comparable to what prevailed during the NDA regime?

SHRI P. CHIDAMBARAM: Sir, I appreciate his kindness in not getting into any controversy, nor is it my intention to get into a controversy. In fact, a few minutes ago when I answered the previous question I defended what the Government did in 2002 in the case which went to the Andhra Pradesh High Court. It is not a question of who is right and who is wrong. The question which was put to me is that inflation is unprecedented after the UPA Government took office; to which I said, "No, during the previous regime also in three out of six years the average inflation was over 5.4 per cent", which implied that in three out of six years it was under 5.4 per cent. But I added that even 5.4 per cent is not acceptable and it requires to be moderated. I don't know which passage from the Economic Survey my hon. friend was referring to. The fact is that in the last nine years inflation has been high and has been low. In fact, in one of the years of the NDA Government, inflation was brought down to well below three per cent. The U.P.A. Government also in 2005-06, at one point of time, brought down inflation to 3.2 per cent. Inflation has been varying over the period of last nine years. The difference is—this is significant; I am sure Mr. Sinha will appreciate it—the inflation must be related to growth. Growth has an impact on inflation. If demand rises, if capital inflows rise, if bank credit rises, it will have an impact on inflation. In the six years of the NDA Government, average growth was 5.8 per cent. In the three years of the UPA Government, average growth is 8.6 per cent. There has been a structural shift in the composition of the growth. Today's growth is led by very high growth in manufacturing and services and rather unsatisfactory growth in agriculture. As a result of that, the bank credit is very high and capital inflaow is high.

These have to be tackled by a variety of measures. My learned friend knows what measures are available to the Government and the RBI. Every single measure is being taken by the Government and the RBI. We are confident that inflation will be moderated. Although it is still only a week old, inflation has moderated to 5.7 per cent. I am not drawing any conclusion. It will be too early to draw any conclusion. But I am confident that RBI's monetary measures and Government's fiscal measures and the measures that are being taken on the supply side, which will take some time, will moderate inflation.

SHRI SANTOSH BAGRODIA: Sir, very intelligent Finance Minister has tried to explain inflation. But the point is that inflation in manufacturing and agriculture is a different subject which he himself has mentioned. Our concern is, whether the steps taken by him are really going to help or not. One of his steps was ban on futures trading in *tur* and *urad* from January and wheat and rice from February, 28. How does this kind of step help in reducing inflation? Farmers are not able to know future rates. As a result, the big people and the middlemen are cornering their stocks because they have better information. I would like to know whether these steps have any impact on the prices? Is there any impact on prices of these items after January-February?

श्री रामदास अग्रवाल: सर, बैन लगने के बाद तो पांच सौ करोड़ से ज्यादा की दालें एक्सपोर्ट हो गईं, pulses पर बैन लगने के बाद। ...(व्यवधान)...

श्री सभापति: ठीक है, ठीक है।

SHRI P. CHIDAMBARAM: Sir, the hon. Member has a point of view. But there is another point of view articulated by many sections of this House and by the Standing Committee on Finance which recommended that all futures trading in all food articles and commodities should be banned. Responding to the recommendation, the Government in the Ministry of Agriculture have appointed the Abhijit Sen Committee to go into the matter and give a report to the Government on whether futures trading in food articles should be banned and if so, under what conditions. I don't have to offer an opinion at this stage when the matter is being considered by the Abhijit Sen Committee. Let the Abhijit Sen Committee report come and certainly, the Government will share the report with this House and then take an appropriate decision.

SHRI TAPAN KUMAR SEN: Mr. Chairman, Sir, the hon. Finance Minister has given an elaborate list of fiscal measures besides monetary measures taken to contain inflation. He said that demand-supply mismatch, particularly in the area of essential commodities, is also an important factor towards inflation. To contain inflation, he has given a host of measures alongwith reducing the demand-supply mismatch. If you have to fill up the demand-supply mismatch, besides raising productivity, another important aspect is supply management. I would like to know whether the Finance Minister has noted the changes in the agricultural procurement where private traders have been allowed.

The FCI is being sidelined, and this is creating a serious problem in administering the supply of essential commodities. In turn, it is also weakening the Public Distribution System which is also a controlling lever on the rising of prices. So, as part (a) of my supplementary, I would like to know from the hon. Minister as to whether this aspect has been considered for corrective action. Part (b) is, there are certain important materials — these are also essential commodities, but these have got a special role — like fuel and energy, that is, petroleum and gas; there is a consensus opinion to restructure the petroleum prices and to reduce the duty component, which is around 50 per cent...

MR. CHAIRMAN: You put your supplementary ...*(Interruptions)* You come direct to your supplementary.

SHRI TAPAN KUMAR SEN: Not only petroleum; this is going to attract gas and other important fuels. I would like to know whether the Finance Minister would consider making a structural adjustment in the component profile of taxes in those materials which have got a cascading effect on all other commodities.

MR. CHAIRMAN: That is enough. Please take your seat.

SHRI P. CHIDAMBARAM: Sir, it may not be correct to say that FCI has been sidelined. FCI is the most important instrument available with the Ministry of Agriculture, Food and Consumer Affairs to procure foodgrains. It is true that last year, only 92 lakh tonnes of wheat was procured which is one of the causes why inflationary expectations went up. This year the Ministry of Agriculture has informed the Cabinet that every step is being taken to procure a much larger quantity of wheat. Any further question on FCI and procurement, I respectfully submit, should be put to the Ministry of Agriculture, Food and Consumer Affairs.

As far as cutting duties on petrol, diesel and other fuels are concerned, this issue is constantly under review. We cut the excise duties twice on petrol and diesel, by one rupee and two rupees at one time, and again by one rupee and two rupees. There is also the other side of the revenue. Revenues have to be raised. Balancing the need for revenue and balancing the need for price stability, the Government, at the highest level, after considering all aspects, takes a suitable decision. It is not possible to give an answer one way or the other in the course of answering a question. But the question of prices and their impact on inflation and how to moderate inflation, is constantly under review.

SHRI RAVI SHANKAR PRASAD: Sir, we just heard what the Minister was saying that supply, particularly on food items, needs to be properly managed to contain inflation. He has outlined two or three issues including ban on export of pulses with effect from 26th June, 2006, and of wheat with effect from 7th February, 2007. Mr. Minister, I am sure, you are aware that there is a big scam on pulses' exports. Now, the CBI has instituted an inquiry into the cases amounting to over Rs. 250 crore; it is estimated to hover around Rs. 1000 crores. My supplementary is quite specific. When you banned the export of wheat, in your notification, you did not give any exemption that the Letter of Credit, prior to that date, shall be honoured. But, in the case of pulses, the notification dated 26th June, 2006, has started that exemption of Letter of Credit, prior to that date, shall be honoured. There is no such exemption in the case of sugar as well. My supplementary is very specific. Who took the decision to give the exemption? Was it the Cabinet or the Ministry? (b) Most importantly, why was such an exemption given in the case of pulses and not in the cases of wheat and sugar. (c) LoC is given between two parties and not by the Government. Now, why was this exemption granted which led to a scam? *(Interruptions)* Mr. Minister, you are aware that there is a CBI inquiry into the scam which, as per their calculation, amounts to over Rs. 250 crores? But, this figure could go up to Rs. 1000 crores. My supplementary is this. Why was this exemption granted leading to this scam because of spurious manipulation of Letter of Credit in Dubai and Cook Islands?

SHRI P. CHIDAMBARAM: Sir, the hon. Member, my dear friend, will be happy to know that I did not issue any notification from the Ministry of Finance.

SHRI RAVI SHANKAR PRASAD: But it is a Government notification.

SHRI P. CHIDAMBARAM: Just a moment, I am answering; take it in that spirit. When you said 'you', I said I didn't issue any notification. This notification, banning export of pulses, was issued by DGFT which falls under the Ministry of Commerce. *(Interruptions)* There is a paragraph in the Foreign Trade Policy which allows pre-ban LCs to be honoured, unless a specific notification to the contrary is made. You have got the dates; I think we have answered an Unstarred Question today. The second notification prohibiting even the pre-ban LCs was issued later. During that period between the first notification and the second, some people have exported pulses and it is suspected that there could be three cases where they have altered the date of the LC. The matter was immediately taken up for investigation. In fact, it was first investigated by the DRI falling under the Department of Customs. We provide the information. The matter has now been referred to the CBI. There is a CBI investigation going on. If I remember aright, there is an Unstarred Question today on this subject which gives all the details. *(Interruptions)*

SHRIMATI S. G. INDIRA: Sir, it is reported that one of the reasons for the slow growth of scheduled banks in the large amount of non-performing assets that these banks have. It is true that the banks have taken several measures to reduce the NPA level, but these banks are unable to restrict the NPAs and the defaulters are not coming forward to settle their accounts. So, I would like to know from the hon. Minister whether any guidelines have been issued to the scheduled banks to expedite the recovery of the NPAs.

SHRI P. CHIDAMBARAM: With great respect to the hon. Member, this question does not relate to the NPAs of banks. But let me assure her that the NPAs of the public sector banks, as on 31st march, 2007 have been the lowest ever and instructions have been issued, both by the RBI and the Government, that they should lower it even further. But the lowest ever net NPA was achieved on 31st March, 2007.

Adequate Infrastructural facilities to attract FDI

*463. SHRI RAVULA CHANDRA SEKAR REDDY: Will the Minister of FINANCE be pleased to state:

(a) whether Government are providing adequate infrastructural facilities to the companies to attract more FDI;